The long-run performance following convertible debt offerings: does the design matter?

Khalid El Badraoui (ESC Rennes School of Business and CREM UMR CNRS 6211, Rennes, France)

This paper examines the impact of convertible debt design on the long-run stock price performance of the issuing firms in France. More specifically, we divide French convertible bonds (CBs) into three categories; namely, debt-like, mixed, and equity-like CBs, based on their total conversion probability, which integrates the possibility of early exercise of the call feature. In line with previous empirical studies, our results show that French CB issuers experience a substantial increase in their stock price profitability before the offering followed by significant under-performance over the three year post-issue event window. However, the breakdown of our sample into three groups of CBs depending on their design reveals, on one hand, a strong evidence of stock price run-up before the offering only for equity-like and mixed CBs. On the other hand, the post-issue performance is worse only for equity-like issuers, indicating that the post-issue performance is poorer the more the convertible debt issuer's stock is over-valued prior to the offering. This finding is consistent with the market timing hypothesis.

Key words: Convertible Bonds, Market Timing, Operating performance, Security design, Stock price performance.
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